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SUBJECT: TEXTILES INDUSTRY: PESSIMISTIC DESPITE RISING TRADE

1. SUMMARY: Officials from the UAE Ministry of Economy, two textile factories in the UAE's Jebel Ali Free Zone (ATRACO Industrial and Carolina Fabric LTD) and one garment factory in Abu Dhabi (Abu Dhabi Garment Factory (ADGF) are pessimistic about current and future prospects of the UAE textile and apparel sector despite significant growth in textile and apparel exports and re-exports in 2005. Officials from the UAE government and the textile and apparel industry say the industry is slowing down, adding that elimination of international quotas has severely affected UAE textile and apparel sector. END SUMMARY.

Textile and Apparel Statistics

2. Official data for 2005 indicates that Dubai's textile and apparel trade has increased by 15% from 2004 to 5.85 billion USD, according to the Dubai Ports, Customs and Free Zones Corporation. Exports, the smallest component of Dubai textile and apparel trade, grew substantially by 43 percent, from 169.8 million USD in 2004 to 243.26 million USD in 2005. Dubai's textile and apparel imports increased by 10.6 percent, from 3.29 to 3.65 billion USD. Re-exports increased by 22.7 percent, from 1.58 to 1.93 billion USD during the period.

3. Imports made up the major component of textile and apparel trade in 2005, comprising 62 percent, followed by re-export (33 percent), with exports as the lowest (4 percent). About 65 percent of the imported textile and apparel is from China, India, South Korea, Indonesia and Thailand.

Anxiety Regarding International Competition

4. Officials from the UAE government and textile and apparel industry believe the UAE's domestic textile and apparel industry is hurting. According to one official from the Ministry of Economy, the UAE textile and apparel sector is not improving. He said the higher growth rate in the textile and apparel exports in 2005 might be because some factories in Dubai and Sharjah still export under old contracts with their clients, contracts that were signed before the quotas were eliminated. Officials from two leading textile factories in the UAE's Jebel Ali Free Zone (ATRACO Industrial and Carolina Fabric LTD), told Emboffs that their business had not improved. One said his factory has reduced prices in order to increase its competitiveness in international markets. Another said local textile factories are "dying out".

5. In an effort to promote and develop the UAE's textile and apparel industry, two emirates have launched exhibitions to draw in trade. Middle East Fashion Textile, Leather and Accessories Exhibition (MOTEXHA 2006), the Middle East region's largest trade show for garments, textiles, leather and fashion accessories was inaugurated in April 2006. The exhibition gathered over 250 exhibitors from 30 countries. Another four-day textile exhibition, "Texpo," was held at the Expo Center in Sharjah in September 2005. Dubai Textile City was launched in 2004. The first phase of the project had already been rented out to more than 90 investors. However, only one official from those we talked or met with thinks the annual textile and apparel exhibitions in Dubai and Sharjah and the newly established Dubai Textile City will enhance the industry.

6. Other officials argue that the 15 percent growth rate in textile and apparel trade does not imply that the sector is strong. According to them, exports, an indicator for local textile and apparel industry, are still a very small portion of the total textile and apparel trade despite strong growth in 2005. Officials from Abu Dhabi Garment Factory and Carolina Fabric LTD said re-exports also have no real value added in UAE, and are just transit trade through Dubai given the importance of Dubai as a main trade hub in the region.

7. Officials from garment factories in Abu Dhabi also note that the textile and apparel sector is shrinking. They said they face more competition from China and some other Asian countries, and that the cost of inputs in the UAE has increased. Out of five main garment factories in Abu Dhabi, two of them closed following the elimination of international quotas. The existing three factories in Abu Dhabi handle ready-made garments only, sewing clothes. Officials from the

Abu Dhabi Garment Factory said that their garment exports have decreased since the elimination of quotas.

An Attempt for Partial Solution

18. Ministry of Economy officials stated that after elimination of quotas, the Ministry has encouraged the UAE textile and apparel factories to export more to the member countries of The Arab Free Trade Zone and Gulf Cooperation Council (GCC) in order to take preferential advantages in these markets.

Comment

19. Despite some reports that touted the 2005 growth in the UAE's textile and apparel sector as a sign that business is improving in a sector, the increases should not be looked at in a vacuum. The year 2005 was exceptional for the entire UAE economy, and all UAE economic sectors experienced significant growth due to sharp increase in oil prices. Further, the impact of elimination of quotas on the UAE textile and apparel might be more visible in the coming years than in 2005, because some UAE textile and apparel factories are still able to export under old contracts with their clients. Given the trade deficit in the textile and apparel industry, it is logical that factories in the UAE feel the sector is hurting.

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